

- Answer: c
4. A bank is in the position to make loans when required reserves:
- (a) equal actual reserves.
 - (b) equal excess reserves.
 - (c) are less than actual reserves.
 - (d) are greater than actual reserves.

- Answer: d
16. A bank has excess reserves of \$5,000 and deposit liabilities of \$50,000 when the required reserve ratio is 20 percent. If the reserve ratio is raised to 25 percent, this bank can lend a maximum of:
- (a) \$1,000.
 - (b) \$1,500.
 - (c) \$2,000.
 - (d) \$2,500.

- Answer: c
24. When required reserves exceed actual reserves, commercial banks will be forced to have borrowers:
- (a) use credit cards.
 - (b) use fiat money.
 - (c) repay loans.
 - (d) take out loans.

- Answer: b
34. If the Federal Reserve System sells \$5 billion of government bonds to the commercial banking system, the deposit reserves of commercial banks would:
- (a) increase by \$5 million.
 - (b) decrease by \$5 million.
 - (c) be added to net worth.
 - (d) remain the same.

- Answer: b
35. A single commercial bank must meet a 25 percent reserve requirement. If it initially has no excess reserves and then \$2,000 in cash is deposited in the bank, it can increase its loans by a maximum of:
- (a) \$2,000.
 - (b) \$1,500.
 - (c) \$1,250.
 - (d) \$1,000.

- Answer: d
7. The lending ability of commercial banks increases when the:
- (a) reserve ratio is raised.
 - (b) Treasury collects tax receipts.
 - (c) central banks sell securities in the open market.
 - (d) central banks buy securities in the open market.

- Answer: c
22. Lowering the discount rate has the effect of:
- (a) changing required into excess reserves.
 - (b) changing excess into required reserves.
 - (c) making it less expensive for commercial banks to borrow from the central banks.
 - (d) forcing commercial banks to call in outstanding loans.

- Answer: b
37. The Federal Reserve would be encouraged to buy government bonds in the open market to maintain current interest rates when:
- (a) the demand for money decreases.
 - (b) the demand for money increases.
 - (c) investment demand decreases.
 - (d) the discount rate increases.

- Answer: c
32. The level of GDP will tend to increase when:
- (a) reserve requirements are increased.
 - (b) there is an increase in the discount rate.
 - (c) the Federal Reserve buys securities in the open market.
 - (d) the Federal Reserve sells government securities in the open market.

Answer: a 46. The purpose of an easy money policy is to:

- (a) increase aggregate demand.
- (b) decrease aggregate demand.
- (c) increase investment demand.
- (d) decrease investment demand.

Answer: d 54. Suppose the economy is at full employment with a high inflation rate. Which of the following combinations of government policies is most likely to reduce the inflation rate?

- (a) Buy government bonds in the open market and increase taxes.
- (b) Buy government bonds in the open market and decrease taxes.
- (c) Sell government bonds in the open market and increase government spending.
- (d) Sell government bonds in the open market and decrease government spending.

Answer: c 58. When the Federal Reserve acts to ease money and credit in the economy, then the aggregate:

- (a) supply curve will shift to the right.
- (b) supply curve will shift to the left.
- (c) demand curve will shift to the right.
- (d) demand curve will shift to the left.

Answer: b 60. When the Federal Reserve acts to tighten money and credit in the economy, then the aggregate:

- (a) demand curve will shift to the right.
- (b) demand curve will shift to the left.
- (c) supply curve will shift to the left.
- (d) demand curve will stay the same but there will be a movement along the existing demand curve.

Answer: c 69. In the intermediate range of the aggregate supply curve, a policy of monetary restraint would most likely contribute to a:

- (a) decline in inflation and rise in unemployment because of an increase in aggregate demand.
- (b) rise in inflation and a rise in unemployment because of an increase in aggregate supply.
- (c) decline in inflation and a rise in unemployment because of a decrease in aggregate demand.
- (d) rise in inflation and a decline in unemployment because of a decrease in aggregate demand.

Answer: c 73. The strengths of monetary policy compared to fiscal policy are generally thought to include all of the following *except* greater:

- (a) speed.
- (b) flexibility.
- (c) impact on taxation.
- (d) political acceptance.

Answer: b 96. An easy money policy will most likely result in a(n):

- (a) appreciation of the dollar and thus an increase in net exports.
- (b) depreciation of the dollar and thus an increase in net exports.
- (c) depreciation of the dollar and thus a decrease in net exports.
- (d) appreciation of the dollar and thus a decrease in net exports.

Answer: a

1. In the simplified aggregate demand and aggregate supply model of the economy, Keynesian economists would view the aggregate supply curve as being:
- (a) horizontal to full-employment output and the aggregate demand curve as being unstable.
 - (b) vertical across the price level and the aggregate demand curve as being stable.
 - (c) horizontal to full-employment output and the aggregate demand curve as being stable.
 - (d) vertical across the price level and the aggregate demand curve as being unstable.

Answer: c

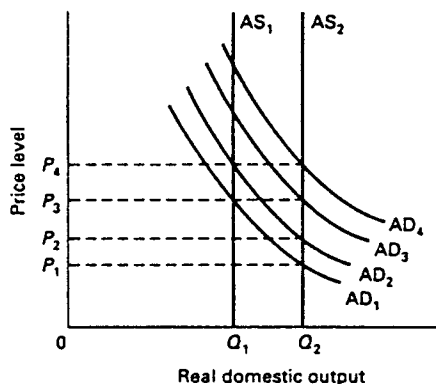
10. The equation of exchange suggests that if the velocity of money and the quantity of goods and services are held constant, a(n):
- (a) decrease in the money supply will increase the price level.
 - (b) increase in the money supply will decrease the price level.
 - (c) increase in the money supply will increase the price level.
 - (d) decrease in the money supply will have no effect on the price level.

Answer: d

13. If the money supply rises from \$600 billion to \$800 billion and nominal GDP stays unchanged at \$4,800 billion, then the income velocity of money:
- (a) rises by 33 percent.
 - (b) falls by 33 percent.
 - (c) rises from 6 to 8.
 - (d) falls from 8 to 6.

Answer: b

32. From a monetarist perspective, the money-demand curve:
- (a) is relatively flat and the investment-demand curve is relatively steep.
 - (b) is relatively steep and the investment-demand curve is relatively flat.
 - (c) and the investment-demand curve are both relatively steep.
 - (d) and the investment-demand curve are both relatively flat.



Answer: b

41. Refer to the above graph. Assume that the economy is initially in equilibrium at the intersection of AD_1 and AS_1 . Then there is economic growth in the economy that shifts AS_1 to AS_2 . With the shift from AS_1 to AS_2 , the monetary rule would call for an increase in the money supply such that:
- (a) AD_1 would shift to AD_2 .
 - (b) AD_1 would shift to AD_3 .
 - (c) AD_1 would shift to AD_4 .
 - (d) AS_2 would shift to AS_1 .